

Deputy Under Secretary of Defense

(Industrial Policy)

Aerospace and Defense Finance Conference/Department of

Navy Small Business Conference

New York/Millington, Tennessee

May 5-6, 2003

Stories from the War

Few of us in this room have ever been to war recently. The closest I came was in 1991 when about 10 days into Desert Storm, the Navy began capturing Iraqi prisoners of war from oil rigs in the gulf. At the time, I was attached to a reserve POW interrogation unit that drilled out of Floyd Bennett Field in Brooklyn. As I heard the news that spring -like Saturday morning in Manhattan, I spoke with my commanding officer and then went downtown to stock up on sunscreen and other supplies essential for an extended stay in a desert setting. I will never forget the surreal-ness of overhearing young

Manhattanites arguing over whether to buy the \$300 or \$500 throw rug for their child's nursery; the Wall Street professionals barely out of college discussing their drives to the Hamptons to find summer rentals. All made possible because 19 year old Americans are willing to fight our wars so that we can continue our day to day routines.

Private Jessica Lynch is one of those 19 year olds. Raised in a tin- roofed, white wood- framed home at the end of a single-lane gravel road, Private Lynch enlisted in the Army the day her older brother Jeffrey Jr. did -- and her sister Brandi, now 18, will follow suit in August. The story of her capture and subsequent rescue from an Iraqi hospital last week riveted the nation and had many of the finest elements of this war: a tri- service rescue operation carefully orchestrated by Army special forces, Navy Seals, and the Marine Corps; a girl who resisted capture with her last bullet and more; and an Iraqi lawyer who wouldn't stand by while a woman was being abused and risked his life numerous times to settle the score. Jessica's father, a

self-employed truck driver said that it was, "growing up in the country and woods, and by what her brother put her through" that prepared her for what she did last week.

And I think it is because we in this room understand that what we do is for the 19 year olds like Jessica Lynch -- that makes our defense industry different than any other in the world.

This war, like Operation Enduring Freedom, has also been marked by a number of transformation firsts: the thirty year old S-3 Viking launching Maverick for the first time; Navy P-3s providing targeting information to our Air Force C-130 gunship so that it could destroy an Iraqi patrol post threatening an oil platform in the northern Persian Gulf; using the new F-117s for the first time in combat with precision guided 2000 pound bombs with only 2 hours time to prepare when normally a typical stealth fighter mission requires six hours of meticulous planning... and the Navy's first JDAM shot from an F-14 Tomcat.

Stories from the Home Front

The stories from the home front have been no less inspiring:

- *JDAM production rate has tripled from levels planned prior to September 11th;*
- *LGB production rate has nearly doubled with significant unit cost reductions;*
- *Honeywell established a second source for a critical missile component in two days to avert a potential delivery interruption.*

These stories are the industrial base equivalent of the Jessica Lynch story.

Longer term, there are other exciting developments in the defense industrial base: more money and—likely—more companies.

The FY04 Defense budget request submitted by the President is about \$380 billion. In constant year dollars, this is about 4% more than the FY03 budget, which in turn was about 8% more than the FY02 budget. The budget request includes \$61.8 billion for RDT&E – a \$7.9 billion increase over FY03; and \$72.7 billion for procurement – a \$4.0 billion increase over FY03. For the future, we’re projecting a continuing upward budget trend from FY00 through FY09: 66% higher at the topline; 104% higher for procurement; and 79% higher for RDT&E.

So much for more money. We also think that as the concept of warfare and warfighting capabilities are being transformed, the industry that will support defense must transform as well. The defense industrial base today is a distillate of its prior form.

What were roughly 50 major U.S. defense suppliers in the 1980s have become just a few highly-consolidated, cross-service, cross-platform, prime contractors. Some pundits are concerned about the allegedly excessive narrowing of the U.S. defense industrial base. I believe that this “narrowing” is a sign

of the current watershed between platform-centered and futuristic warfare. In fact, in this watershed, the “industry giants” are uniquely positioned to provide us transformational, network-centric, system-of-system solutions to knotty defense problems. These firms are important to defense; but they are not alone.

I believe that transformation, fueled by a robust defense budget, will spawn dozens of new entrants to our defense industrial base. There likely will be three major sources of the innovative companies on which DoD will draw.

First, most of the legacy defense suppliers understand the transformation mandate, and will change with the times. Perhaps they will change by acquiring innovative emerging defense suppliers or by expanding their product lines. Their corporate names may remain the same, but their operating divisions will have different names. They will be joined by lower-tier firms that grow to be prime contractors.

The second source of new companies will be companies like former toy manufacturer iRobot, now providing search and reconnaissance tracked ground vehicles; or former surfboard manufacturer Foam Matrix, now building wings for missiles and UCAVs. These small, innovative companies initially fill critical niche defense needs and ultimately may find enough markets to achieve critical mass.

And third, there will be commercial companies or divisions of companies that form around emerging defense requirements. These could be pharmaceutical companies that take up the challenge of chemical and biological defense and associated vaccination programs. Or they could be entertainment companies that apply their abilities in visualization to the battlefield of tomorrow.

In DoD, our challenge is to leverage the sum total of our R&D and acquisition policies, budgets, and decisions to create an

industrial environment that nurtures such firms – that shapes an industrial base that will supply 21st century warfighters as effectively as it has prior generations of American men and women in uniform.

The Way Ahead

When we finish Iraqi Freedom and start the reconstruction, this Administration will have demonstrated to the world our ability to engage across the entire national security spectrum.

Operation Enduring Freedom was the asymmetric war for which we had no time to prepare: 26 days from 9/11 to the first strike.

Operation Iraqi Freedom was the war where we had the time to prepare and fight in a more conventional mode but with the benefit of cross-service and networked ways learned in OEF.

The nation- building and reconstruction will demonstrate that once you can show sufficient dominance of a country's logistics infrastructure to flow humanitarian aid -- and more, the

magnanimity to do so – you will have truly won the war. The neighborhood is already starting to feel safer!

I want to close in thanking all of you for what you are doing for us and our 19 year olds. Private Lynch said it best in a letter from Kuwait, where she arrived with her unit in February. She found time to write to home. And this is how that letter ended: "Keep me and all soldiers in your prayers and thoughts, and we will do our best to protect you all."